

The last 3 years have seen our shipping industry go through the most incredible and unprecedented transformation ever. From a specialized industry focusing on the safe and reliable transport of seaborne cargoes which demanded down-and-dirty hands-on approach to a glamorous commoditized and very “sexy” business.

Shipping has undergone a huge change. Like the one-cell amoeba, shipping has split into two. “The ship” has disengaged from the “shipping”. More on that later.....

It all looked so good, didn't it ? Multi-billion dollar deals, cash flow and equity returns well into the high double or even triple figures. The emergence of the FFA with daily turnovers that equals stock market bourses, glamorous hedge funds, venture capital equity all pouring in to tap into this miracle Midas-like industry. Where indeed, it was felt that everything that shipping touched turns into gold.

And yet, is this unprecedented once-in-a-lifetime phenomena really so good, so miraculous ? I'm not sure.....in fact, I'm disturbed. In turning shipping into yet another investment portfolio, we have basically lowered all barriers of entry into our very challenging and demanding industry. An industry that is inundated by maritime regulatory statutes that asks ship owners and ship managers to do the impossible. An industry that threatens us with criminalization for every little act that we do. An industry that only the most committed and most passionate can hope to even survive in.

The ship has disengaged from shipping. The barriers have come crashing down. But does that mean our industry has truly changed ?

Ships still load and discharge the same cargoes that they loaded and discharged decades ago. Rules of navigation and methods of maintenance are the same but in the early 80's instructions were sent by cable. We had to save even on the number of words you cabled, thus the rule of thumb that you cram enough words into the allotted 7 letters quota that made up One Word. A message sent and an answering message took the better part of a day. E-mail ? acrobat reader, word document, excel attachments ? Those weren't even a seed of a dream ! We used phones, but they were Ship-Shore Band (SSB) meaning the connections were so bad we were often more confused and frustrated after we finish the call.

The owning and management of ships hasn't changed in its essence. The ships are built with hulls of steel, the prime movers are still diesel engines that works on the age-old principals of combustion. The cargoes being moved haven't changed for the most part.

So what has changed ?

Liabilities – Unlimited pollution liability generated from legislation from both sides of the Atlantic from OPA 90 to the EU ship-source pollution penalties, more stringent vetting of seafarer training schools and manning companies through the establishment of STCW 95. The Rotterdam Rules, which saddles full liability on owners for even gross negligence of stevedores and obliges owners to demonstrate seaworthiness of a vessel for an entire voyage. Greenhouse Gas Emissions which forces owners to make submissions on reduction of carbon dioxide emissions during the Copenhagen Climate Change conference this coming December when the technological applications for compliance are still in its very formative stages. The criminalization of seafarers as a result of a good chunk of the legislation aforementioned. These are just some of the challenges (and I must add – unprecedented challenges) shipowners and their seafarers face in a regulatory environment that is making it more and more difficult for compliance to standards that requires herculean efforts to meet on shipowners part.

These changes present challenges that basically should reflect almost prohibitive entry barriers to shipping.

This has not happened.

What has changed ?

An unprecedented newbuilding orderbook to the tune of 600-plus each for capesize and panamax bulkers, almost 600 container vessels, 200-plus VLCC's and about the same number for aframax tankers all delivering between now and 2012.

A shipping market that has become commoditized. Where FFA's dictate freight rates and timecharter rates.

A shipping market that has become a speculators' heaven where literally every hedge fund, venture capital equity, tax shelters, shipping IPO's and the like comes in and orders new ships at a frenzied pace equal to any real property bubble in any major city around the world.

And this includes speculating in shipyards which, in China alone, has perhaps tripled our Motherland's shipbuilding capacity !

And finally, all this gives rise to a new breed or new generation of shipowners whom are nameless and faceless. Quasi-owners whom are not interested in the business of shipowning.

In addition to unprecedented speculation in contracting newbuilding vessels and creating the unprecedented overtonnaged situation we face today. We have to remember that these ships will be delivered and will be trading not only on the shipping market, but more critically, in the oceans and other waterways of the world !

These ships will be somehow be classed, entered into P&I Clubs covered by Hull & Machinery policies and, thank God that banks literally stopped the financing facilities.

For every major professional ship manager such as those present with us tonight that rightfully and prudently refuses to manage the fleet owned by this type of investor, there will be a number of lesser managers whom will be only too happy to beef up their ship management business and offer such services.

Charterers.....or should I say freight traders will employ these ships based upon the fact that they are new and not picky on freight rates or timecharter earnings.

And then, I truly feel, the trouble will start.

Starting with what are certainly poor construction standards by these upstart private shipyards that will deliver a good sized chunk of these newbuildings to the aptitude and qualifications of the lower tier ship managers to shipowners that are not shipowners, who looks at owning a ship akin to nothing more than buying a flat.

And we haven't even touched upon the seafarers. High quality officers in our seafaring industry continues to dwindle and new generations of seafaring cadets also reveal a continuing aversion of going to sea. Who will man these ships ?

We will be seeing more navigation-related accidents such as groundings and collisions, cargo claims will skyrocket and liability from exposure to pollution, injury, loss of property and death will certainly increase.

In the meantime, regulatory legislation will continue to mount and inundate our industry as bodies like IMO will continue to engage in frenzied knee-jerk reactions to the aforementioned casualties piling more legislation, more procedures and more penalties for shipowners.

Now, how is it then that barriers to entry into our shipping industry have not changed and allowed this flood of speculative investment to come in?

Basically, there are no requirements for shipowners to comply with the International Safety Management Code, or ISM Code. This compliance is only mandatory if the owner choses to manage their own ship. As long as the owner

subcontracts management out, owning a ship, for the most part, does not have to go beyond a nameplate in a lawyer's or accountant's office.

And like I said just now, for every one blue chip ship manager who refuses to manage a vessel owned by a so-called Quasi-Owner, there will be a number of lower tier managers whom will be happy to take up this business.

For every P&I Club who refuses to enter such an owner, there will be others hungry for tonnage who will be happy to oblige.

For every blue chip syndicate who refuses to underwrite a vessel, there will be other underwriters, other syndicates and other markets who will be happy to do so.

And for every quality charterer and operator who only wants to employ quality tonnage, there will be the freight trader who's only interested in the lowest freight rate.

Our maritime industry and our shipping industry has seemingly split into two.

Our maritime industry of which is made up of regulatory bodies such as IMO, Flag State and Port State Control calls for accountable, committed, professional and responsible ship owners to operate tonnage in safe, reliable and in an environmentally friendly manner.

Our shipping industry has become a bubble of speculation thriving on derivatives and sentiments with loads of hot money coming from all manner of investor equity and hedge funds.

Last year, seaborne transportation accounted roughly one ton of goods transported for every person in the world.

But our ships have increasingly become targets of unfair accusations ranging from sub-standard management to the root of all greenhouse gas problems to unfair and sub-standard employment of seafarers practices.

If our industry continues to deteriorate into nothing more than a speculative hothouse, shipowners and ship managers like ourselves will continue to be penalized for the actions or inactions of the quasi-owners, whom in-turn, gets away scott-free and continues their destructive ways of speculating on ships.

It is time for ship owners, ship managers, ship financiers, ship builders, class, P&I clubs and hull & machinery underwriters to unite together and raise the barriers for entry into shipping.

A level playing field for ship owners, whether they may be traditional shipping entrepreneurs or “new kid on the block” investors. A minimum requirement for quality needs to be established and mandatorily complied with.

All shipowners need to be answerable to maritime legislative statutes that calls for accountable and responsible commitment towards requirements and standards of ship owning, operating and management.

Banks, classification societies, P&I Clubs, marine hull and machinery underwriters and, yes, even charterers need to join hands to support the raising of entry levels in shipping. While our shipping market has historically encountered overtonnage because of large newbuilding orderbooks or insufficient cargo carriage demand, never have we faced a crisis such as what we are facing today. A shipping market inundated with speculative money looking for quick profits through massive ordering of ships and manipulating freight futures for similar short term gains.

The physical aspect of shipping seems an afterthought. This should not be. We as traditional and committed ship owners already have too much to handle as we continue to meet near impossible regulatory requirements that, if we don't, can oftentimes have criminal consequences.

If the shipping industry is to return to its lofty heights as a respected and specialized industry, barriers to entry must be identified and drawn up. Those already in the industry and those who wish to enter it must do so in a level playing field that imposes minimum standards that must be met.

Accountable shipping and responsible shipping must be these minimum standards. And I don't think we're asking for too much !